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SUBJECT: SERBIA: CORRUPTION ARRESTS TARGET FORMER GENEX EXECS

Summary -----

¶1. Police arrested five former Genex (one of the biggest companies in the former Yugoslavia) executives, and a former Privatization Agency official on October 3. The group is suspected of conspiring to sell Genex land holdings without a public tender and abusing their positions. The police investigation of Genex began following the most recent elections. The privatization of Genex is proceeding, but the arrests and moves at the privatization agency to reassign the Genex case leave many questions unanswered. End Summary.

Arrests of Former Executives -----

¶2. Milorad Savicevic, former director of socially-owned conglomerate Generaleksport (commonly known as Genex) was arrested on October 3, with four other former company executives and Ljiljana Mladjen, former director of the Center for Legal Affairs of the Privatization Agency. The other former Genex executives arrested were: Petar Novakovic and Ivica Lukic, both former general directors; Nebojsa Premovic, former director of the Kopaonik travel agency, and Vladimir Gajic, general director of Genex subsidiary Internacional CG.

¶3. According to a police statement, the group is accused of illegally selling 1.2 hectares in New Belgrade without a tender in 2004, and abusing their positions by incurring losses of more than EUR 20 million from the company budget. The executives are also suspected of other illegal use of company funds including allowing free use of services in several hotels at the Kopaonik mountain resort, which cost the Internacional CG Company some EUR 55,000.

Investigation Begins After Elections -----

¶4. The police released a statement that the investigation into the activities of the former executives of Genex began at the end of January. Coincidentally, this is just after the parliamentary election in which the SPO (Serbian Renewal Movement) failed to cross the five percent threshold for participation in parliament and thus SPO's role in government. SPO had controlled the Genex management board. In Serbia control of the managing boards of large public companies is apportioned between political parties in the ruling coalition. The current government is still struggling to agree on the final distribution of control of public companies.

Genex History -----

¶5. Established in 1952, Genex was the largest foreign trade company in the former Yugoslavia. By 1990 it had more than 6,500 employees and annual revenues of nearly \$7 billion, accounting for more than 10% of total Yugoslav foreign trade. Genex had 70 representative

companies around the world. Its businesses included foreign trade, tourism, hotels, consulting, construction, etc. It had its own aviation company Avio-Genex with eight planes. Genex properties include the former hotel Intercontinental now Hotel Belgrade, business apartments in Belgrade, hotels Grand and Konaci at Kopaonik Mountain, a hotel in Becici in Montenegro and four Boeing 727s. During the 90's Genex collapsed, accumulating debts and losses. Today, the company has two representative companies in Cyprus and Russia and 1,600 employees. Currently, the privatization agency estimates the company's value at just \$150-250 million.

¶6. Savicevic was director of Genex from 1973 until 1990. Soon after the October 2000 revolution, Savicevic was again appointed to head the firm. After a series of changes he carried out despite protests by the employees, he was dismissed from the position in December 2005 by the management board.

Privatization Advisor Concerned

¶7. Wojtek Mlodziejewski, Restructuring and Privatization Advisor at the Privatization Agency, told Econ Assistant that he did not believe that there was a political motivation behind the Genex case.

He said that Genex case is very complicated, with many property issues. Mlodziejewski thinks that once the decision to move ahead with the privatization was made the due-diligence and preparation for privatization uncovered the issues that led to the arrests. However, he said that the timing of this police action coincided with moving the Genex case within the Privatization Agency to a different office in the agency that is less likely to be able to manage the complicated privatization.

Comment

¶8. The Genex case is still developing, but it is symptomatic of the challenges Serbia faces in economic transition. Genex was once a leading Serbian company that is now reduced to a shell of its former value. The primary interest in the privatization of the firm is its property holdings, which are valuable. It is not surprising that the privatization was stalled during the previous government as the SPO was a small, but critical member of the previous minority government coalition. With the departure of SPO from the government, Genex privatization was able to move ahead. If in fact the charges hold, the government will have made a significant stride in making well-known officials accountable for corruption. End Comment.

MUNTER